

Defense Contract Audit Agency

DCAA Support to Our Acquisition Customers

**DCMC ACO/TCO Conference
August 31, 1999**

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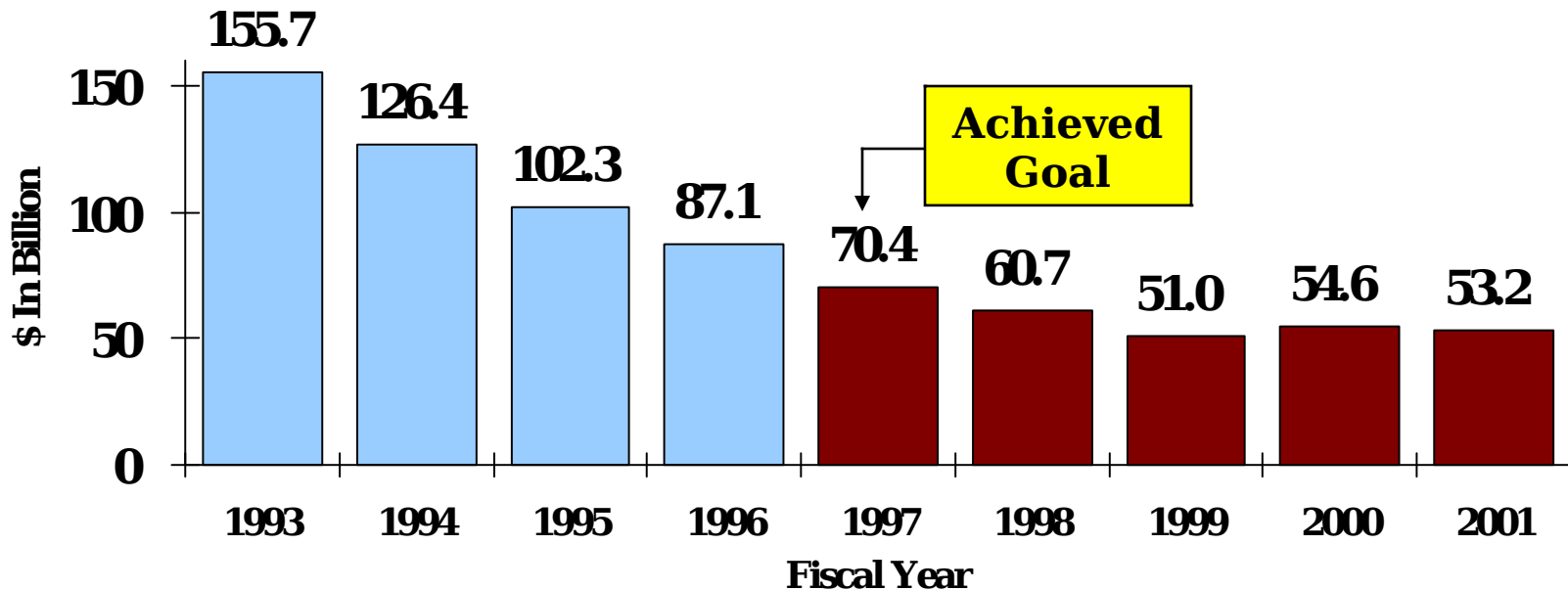
Director

Outline

- DCAA Support of DCMC Goals for Timely Final Indirect Cost Rate Settlements and Contract Closeouts
- Paperless Contract Audit Process - Electronic Transmissions of Requests, Submissions, and Reports
- Contractor Direct Billing Update
- GAO CAS Board Review and Legislation
- DCAA Support of Acquisition Reform
- Price-Based Acquisition

Eliminating the Audit Backlog

- Incurred Cost Effort Focused on Eliminating the Backlog
 - Customer Priority
 - Congressional Mandate



DCAA Concurrent Auditing Initiative

- Perform Incurred Cost Audit Steps Prior to Receipt of the Contractor's Proposal
- Issue Audit Report 2-4 Months After Receiving the Contractor's Submission
- Criteria -
 - ➔ Contractors With Good Internal Controls
 - Contractor Rates Are Current
- Policy Coordinated with DCMC

Final Indirect Cost Rate Settlement

ACO-Determined to Audit-Determined

- DCAA Coordinated with DCMC on One Book, Chapter 6.7 Change
- ACO May Elect to Switch From ACO-determined to Audit-determined Rate Settlement Process When:
 - ➔ Questioned Costs Will Not Exceed \$300,000
 - ▢ Risks Indicate Rates Can Be Settled With Little Difficulty
 - ▢ Both ACO and Auditor Agree To Change
- Benefits of Switching--Saves Auditor, ACO, And Contractor Resources

No. of Audit Reports on Final Indirect Cost Rate Proposals Subject to CO Determination with Rates Not Settled

DCMC Administered Contracts

	4/30/98	6/30/99
Total Reports with Rates Not Settled	756	625
No. of Reports, CQ <or = \$300,000	400	278
% of Reports, CQ <or = \$300,000	53%	44%

**Overhead Status at Contractors with DCMC
Administered Contracts**

**No. of Audits in Process
FY 1999, 3rd Quarter**

Submission On-Hand	Major or Corporate	Non Major	Total
1 Year or Less	111	604	715
1 -2 Years	8	454	462
Over 2 Years	8	227	235
Total	127	1,285	1,412

**Overhead Status at Contractors with DCMC Administered
Contracts**

No. of

**Overdue Incurred Cost Submissions
FY 1999, 3rd Quarter**

Submission Overdue	Major or Corporate	Non Major	Total
1 Year or Less	185	2,128	2,313
1 -2 Years	10	291	301
Over 2 Years	3	265	268
Total	198	2,684	2,882

Streamlining the Contract Closeout Process

- Two Streamlining Methods:
 - **DCAA Contract Closeout Pilot Project Recommendation**--Short-Term Initiative To Reduce Audit Hours. Reduces the Number of Contract Audit Closing Statements to One.
 - ▢ **DoD Contract Closeout Working Integrated Process Team (CCWIPT) Study Recommendations**--Long-Term Paperless Initiative. Eliminates the Need for a Final Contract Audit Closing Statement Report.
- Both Methods Rely on the Cumulative Allowable Cost Worksheet (or equivalent)

Streamlining the Contract Closeout Process

Single Contract Audit Closing Statement Process

- Prepare One Contract Audit Closing Statement For All Completed Contracts As Part of the Incurred Cost Audit
- Use Data From Cumulative Allowable Cost Worksheets To Prepare the Closing Statements
- Issue Contract Audit Closing Statement With the Incurred Cost Audit Report
- Significant Reduction in Direct Audit Hours (Less than 1/2 hour per contract compared to 2-4 hours)

Streamlining the Contract Closeout Process

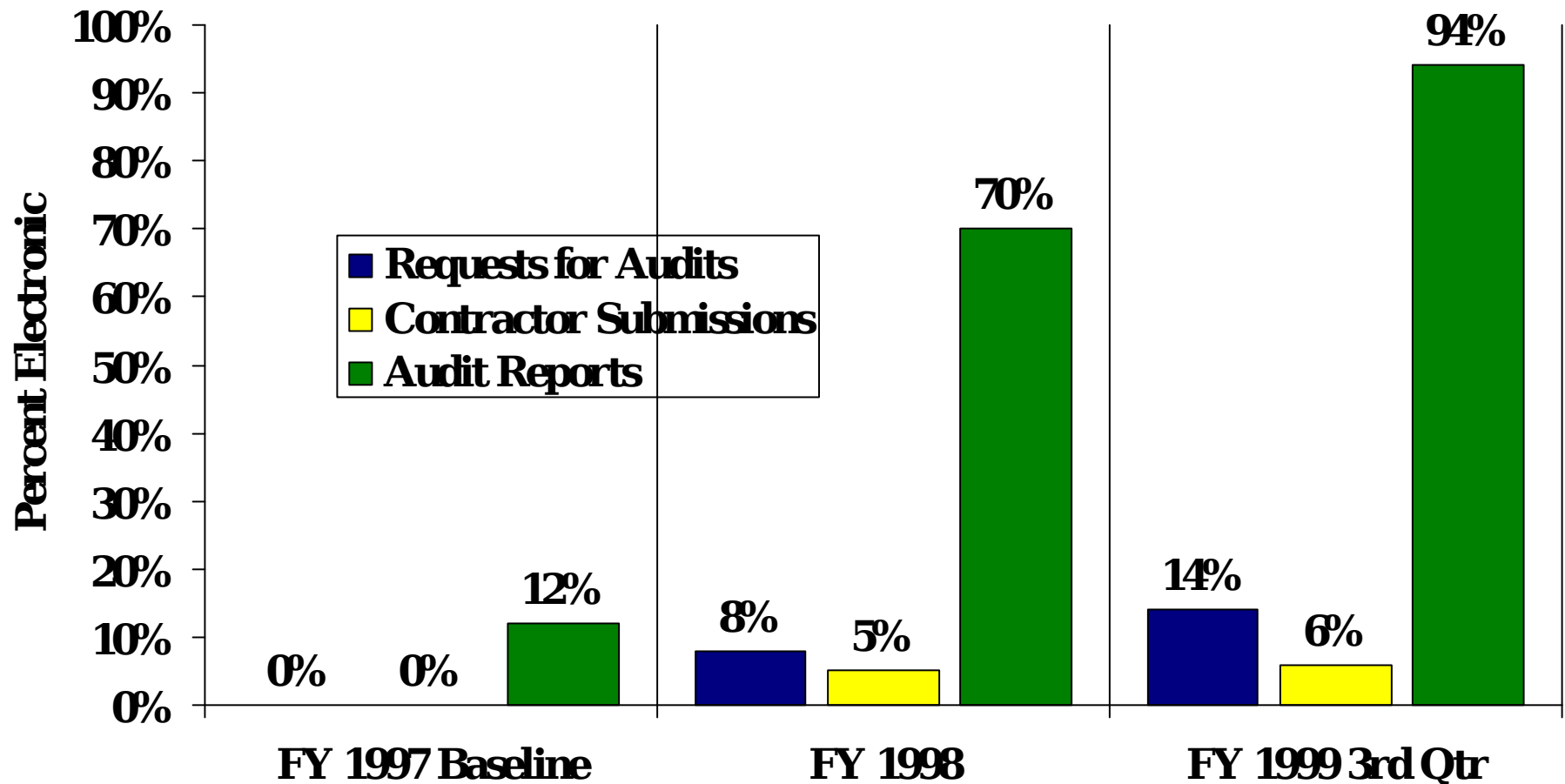
DRID #32 (April 98)

CCWIPT

Recommendation (April 99)

- **Contract Closeout Working Integrated Process Team (CCWIPT) Report Recommendation--Requirement for Final Voucher Audit Satisfied If:**
 - Adequate Billing System and Billing Is Direct
 - ▢ Contractor Electronically Generates Data Necessary for DCAA to Complete the Cumulative Allowable Cost Worksheet (CACWS)
 - ▢ DCAA Copied on All Vouchers
 - If Deficiencies Disclosed During Billing System Review, Procedure Reverts Back to Audits of All Vouchers. Contractor Must Submit Improvement Plan .
- **Establishing the Baseline for Status Reporting--DCAA Is Collecting the Following Data:**
 - ▢ Contractors That Currently Meet the CCWIPT Criteria
 - ▢ Contractors That Modify Their System to Accommodate CACWS and Date of Implementation

Electronic Audit Report Transmissions Agency-Wide



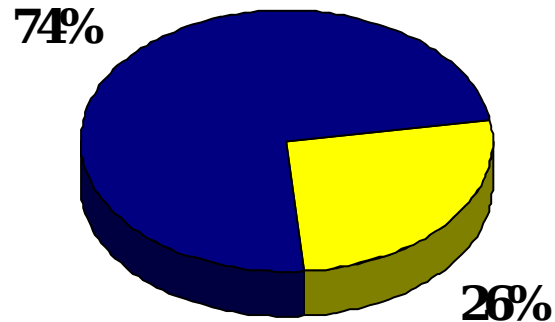
Contractor Direct Billing

- Reduce Payment Cycle Time and Processing Costs While Providing Reasonable Assurance That Amounts Claimed Are Correct
- Focus on Adequacy of Contractors' Billing Systems Rather Than on Each Individual Voucher
 - Periodic Reviews of Billing Systems
 - ▢ Reviews of Paid Vouchers on a Sampling Basis
 - ▢ Review First and Final Vouchers on Each Contract
- Facilitate Transmission of Contractor Payments Using Electronic Data Interchange (EDI) or Web-based Invoicing

FY 1999 Major Contractors Currently Submitting Public Vouchers (Total of 136 Contractors)

Status as of June 1999

Eligible/Ineligible Contractors



- 104 Eligible Contractors
- 37 Ineligible Contractors

Reasons for Ineligibility

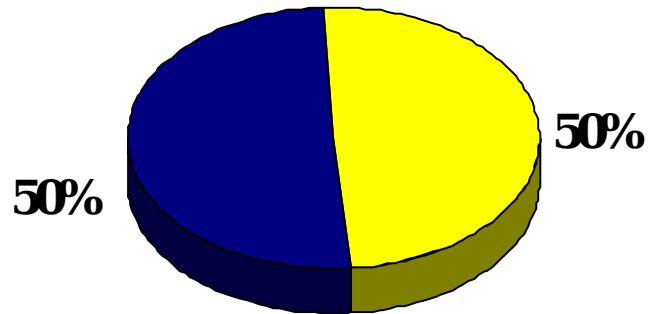


- 19 Contractors - Billing System Deficiencies
- 9 Contractors - Late Incurred Cost Submissions
- 9 Contractors - Both

FY 1999 Non Major Contractors Currently Submitting Public Vouchers (Total of 2,226 Contractors)

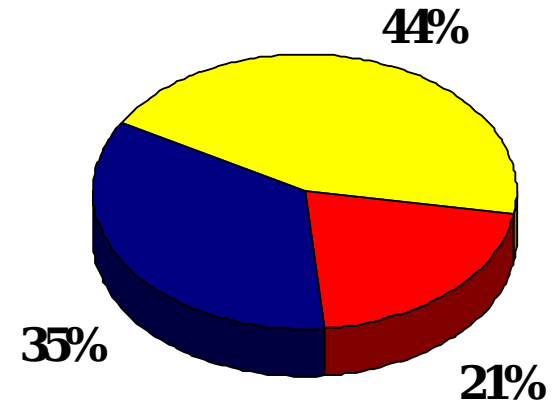
Status as of June 1999

Eligible/Ineligible Contractors



- 1124 Eligible Contractors
- 1102 Ineligible Contractors

Reasons for Ineligibility



- 383 Contractors - Billing System Deficiencies
- 486 Contractors - Late Incurred Cost Submissions
- 233 Contractors - Both

Government/Industry CAS Board Review Panel Scope Per FY 1997 DoD Authorization Act

- Viability of CAS Board's Original Mission After Major Statute Changes
- Extent to Which a Board Is Advisable to Regulate Contractor Practices
- Extent to Which Cost Allocability Functions Should Be Combined With Cost Allowability Functions
- Board Composition, Membership, Terms, and Structure to Ensure Independence and Balance
- Provision of Adequate Staff and Resources

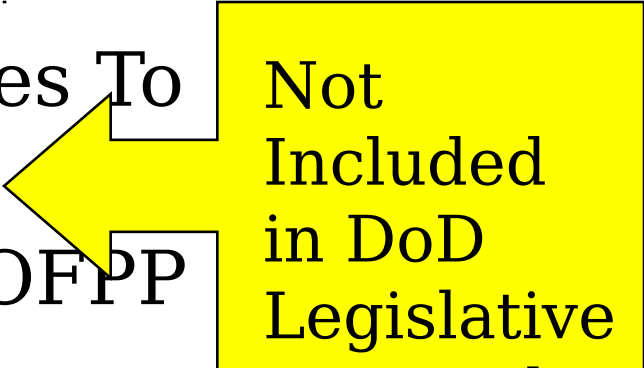
CAS Panel Findings

This group, the CAS Board Review Panel, believes that there is a continuing need for the CAS and the CAS Board.

Cost-based contracts continue to represent the majority of all federal contracting dollars and the original purposes of the CAS-- principally, the need for uniformity and consistency to protect the

CAS Panel's Recommendations-- April 1999 DoD Legislative Proposal--June 1999

- ① Double the Threshold for Full CAS Coverage
- Reintroduce the Trigger Contract
- Exempt Firm Fixed Price Contracts from CAS Coverage Unless Certified Cost or Pricing Data Are Obtained
- Authorize Contracting Agencies To Waive CAS
- Remove the CAS Board from OFPP



Not
Included
in DoD
Legislative
Proposal

CAS Legislation--FY 2000 Authorization Bill August 1999

- Included First Two CAS Panel Recommendations (threshold & trigger contract)
- Modified CAS Panel Recommendations 3 and 4:
 - Exempt Firm Fixed Price Contracts from CAS Coverage Which Are Based on Adequate Price Competition and Where No Certified Cost or Pricing Data Is Obtained
 - ▢ Authorize Contracting Agencies To Waive CAS Under Following Circumstances:
 - Contracts Less Than \$15 Million with Contractors Selling Primarily Commercial Items and Otherwise Not Subject To CAS
 - Exceptional Circumstances --Can't Obtain Products or Service any Other Way
- Did Not Include CAS Panel Recommendation to Remove the CAS Board from OFPP
- Added--Exempt Contracts Under FEHB Program for 1 Year

\$7.5M Trigger/\$50M Full Threshold Impact on Current Full CAS Segments

<u>Segments</u>	<u>CAS Awards</u>	
Current Full Coverage	280	\$69.8B
<u>\$7.5M/\$50M</u>		
No Coverage	18	\$.6B
Modified	73	\$ 2.7B
Full	189	\$66.5B
<u>Percent</u>		
No coverage	6%	1%
Modified	26%	4%
Full	68%	95%

Impact of \$7.5M Trigger

Current Modified CAS Segments

<u>Segments</u>		<u>CAS Awards</u>
Current	308	\$2.2B
<u>\$7.5M Trigger</u>		
Modified	54	\$.9B
No coverage	254	\$1.3B
 % Change to		
No Coverage	82%	59%

Supplemental Notice of Proposed Rulemaking-II (SNPRM-II)

20 August 1999

- Key Features

- ➔ Definition of Accounting Change
- ▮ Provides Criteria for Desirable Changes
- ▮ Provides Exemption Criteria for Changes Associated with Restructuring Activities
- ▮ Cost Impact Procedure

- Status

- ▮ 60 Day Comment Period
- ▮ Open Public Meeting After Comment Period

Cost Accounting Standards Board (CASB) Waivers

- Since 1991--CASB Has Granted 15 Individual CAS Waivers
- June 15, 1998--CASB Granted DoD Limited CAS Waiver Authority for a 2 Year Period When:
 - Contract is FFP Contract Based on Uncertified Cost Information;
 - ▢ Contract Does not Provide for Progress Payments Based on Costs Incurred; and
 - ▢ Contractor Has No Previous CAS-Covered Contracts (Subsequent Award of CAS-Covered Contract Terminates Waivers for All Subsequently Awarded Negotiated FFP Contracts That Meet CAS Thresholds)

DCAA Audit Support for Acquisition Reform Initiatives

9/1/98 Memo to Auditors

- DCAA Strongly Supports Acquisition Reform Initiatives to Advance Civil/Military Integration and to Encourage New Contractor Entrants
- FASA and Clinger-Cohen Act Established Many Far-Reaching Changes
- Misconception--Regulatory Requirements Are a Major Obstacle
- Guiding Principle of Acquisition Reform - Contracting Officer Flexibility

**Auditors Should Be Proactive and Advise
COs To Make Optimum Use of New
Regulations**

Price-Based Acquisition

Why Expand?

Means To Achieve Three Desirable Outcomes:

- Increase DoD's Access To Leading Edge Technology Available Only in the Commercial Sector
- Reduce Government Infrastructure
- Get Better Prices for What We Buy

DoD Vs. Commercial Industry Purchasing

- At the Prime Level for Major Weapon Systems Significant Differences Between DoD and Commercial Industry:
 - DoD - Lack of Competition
 - DoD Is Dependent on Only A Handful of Large Suppliers for Major Weapon Systems
 - Supplier is Often Sole Source
 - ▢ DoD - Items Are Highly Complex, Low Volume, and Military Unique
- Commercial Companies Do Not Purchase Research and Development (It's Funded In-House)
- Greatest Opportunity for Price-Based Acquisition is at the Subcontract Level Where It's More Likely That the Market Forces "Regulate"

What Should Be the Key Defining Attributes of Price Based Acquisition?

- Low Technical Risk
- Competitive Environment
- No Actual or Estimated Cost Data
- Firm-Fixed Price